



### Committee and Date

Audit Committee

29 October 2020

## **MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 17 SEPTEMBER 2020 1.30 - 3.15 PM**

**Responsible Officer:** Michelle Dulson

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### **Present**

Councillor Peter Adams (Chairman)

Councillors Ioan Jones, Michael Wood and Gerald Dakin (substitute for Brian Williams)

### **106 Apologies for Absence / Notification of Substitutes**

106.1 Apologies for absence were received from Councillors Brian Williams and Chris Mellings.

106.2 Councillor Gerald Dakin substituted for Councillor Williams.

### **107 Disclosable Pecuniary Interests**

107.1 The Chairman reminded Members that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

### **108 Minutes of the previous meeting held on the 31 July 2020**

#### **108.1 Paragraph 89.5 - First line assurance: Digital Transformation Update**

A query was raised as to whether the requested table setting out the costs, savings and efficiencies of each of the transformation programmes had been circulated to Members. In response, the Head of Audit explained that the information was currently being pulled together and would be provided in due course.

#### **108.2 Paragraph 90.5 b) - Second line assurance: Annual whistleblowing report**

In response to a query as to whether the Chairman and the Head of Audit had met with Councillor Vasmer, the Head of Audit confirmed that they had and that they had agreed to revisit the Whistleblowing Policy at the meeting of the Audit Committee on 10 December 2020. A revised version would be circulated to Members prior to the meeting in order to capture any suggested improvements/amendments.

**108.3 Paragraph 95.3 - Overall assurance: Annual Governance Statement and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance 2019/20**

The Head of Audit confirmed that the issue of completion of Director Objectives had been raised with Directors. The Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Director Objectives had been identified as part of the Annual Governance Statement and he now had confirmation that once the new Chief Executive had been formally appointed by Council, approaches for identifying and managing Director Objectives would be formalised. In the meantime, however, those informal conversations had continued.

**108.4 RESOLVED:**

That the minutes of the meeting of the Audit Committee held on 31 July 2020 be approved as a correct record.

**109 Public Questions**

109.1 No public questions had been received.

**110 Member Questions**

110.1 No Member questions had been received.

**111 Second line assurance: Risk Annual Report 2019/20 incorporating Strategic Risks Update**

111.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the challenges and achievements accomplished by the Risk, Insurance and Resilience Team during 2019/20. The team includes both business continuity management and the civil contingencies responsibilities of emergency planning and as a result of this the team have experienced an unprecedented workload due to significant weather events and Coronavirus. However, the team has worked tirelessly to respond to all of these incidents whilst maintaining delivery of the day job.

111.2 The Risk and Insurance Manager was pleased to report that the Audit review of risk management this year had again identified the assurance level as 'Good'. The Committee was informed that the quarterly reviews of the strategic risks had taken place and that despite heavy workloads, all officers had responded to the request for updates on the risk profiles. Turning to the review meeting in June, this took place virtually with the individual risk owners (Directors). There were 18 strategic risks on the Strategic Risk Register, detailed in the table at paragraph 6.1.9 of the report.

111.3 Turning to Operational Risks, the Risk and Insurance Manager explained that all risks were now on a Sharepoint site so that risk owners had access to update the risks at any time, not only during the bi-annual review. The team were currently working with IT colleagues to develop PowerBi reporting to allow them to monitor and report on the operational risks with live data at any time. The Risk and Insurance Manager informed the Committee that the team continued to support

projects with their risks and that they were moving these onto Sharepoint so they could monitor and report on live data.

111.4 The Risk and Insurance Manager reported on the work undertaken in relation to Business Continuity, in which area they have faced many challenges, including supporting service areas to respond to Covid and to keep key service areas functional. The Risk and Insurance Manager then highlighted the work undertaken in relation to emergency planning, training and external work. She reported the team were disappointed that they were unable to hold their first Shropshire Resilience Conference in May which was postponed due to Covid-19 but has been re-scheduled for May 2021.

111.5 Finally, the Risk and Insurance Manager congratulated her colleague, Jane Cooper who has now taken over as Chair of the Midlands Alarm Steering committee.

111.6 In response to a query, the Risk and Insurance Manager expanded on procedure for the 'Covid-safe' reinstatement of services which have been ceased as a result of the lockdown measures, referred to in paragraph 6.5.3 of the report. In response to a query in relation to how prepared the Council were for a second spike of the virus, the Risk and Insurance Manager confirmed that robust policies and procedures were now in place to better respond to a further outbreak. The Risk and Insurance Manager responded to a further query in relation to the reopening of all swimming and leisure facilities across the County.

**111.7 RESOLVED:**

To accept the position as set out in the report.

**112 Second line assurance: Annual Treasury Report 2019/20**

112.1 The Committee received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which informed members of treasury activities for Shropshire Council for 2019/20, including the investment performance of the internal treasury team to 31 March 2020.

112.2 The Director of Finance, Governance and Assurance (Section 151 Officer) reported that the Internal Treasury Team had outperformed their investment benchmark by 0.42% and that performance over the last three years was 0.32% per annum above benchmark delivering an underspend of £3.75 million. This was mainly due to a review of the Minimum Revenue Provision policy.

112.3 The Director of Finance, Governance and Assurance (Section 151 Officer) drew attention to the Council's borrowing outturn and debt rescheduling. He reported that no debt restructuring had been undertaken during 2019/20. He also confirmed that all borrowing and lending transaction had complied with prudential and treasury limits set out in the Treasury Strategy.

112.4 In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) confirmed that the Audit Committee had looked at the premium related to individual loans based on their proposed maturity and fixed rate

interest during Treasury Management training sessions but it did not form part of this report. He explained that Appendix A showed the existing debt maturity schedule, which, once paid off, could be replaced with lower interest rate debt going forward however the Council had very little debt to be repaid in the next 9-10 years. Significant levels of debt were due to be repaid in the next 20-30 years, at which time the Council would consider new borrowing.

112.5 In response to a further query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that currently the Council was 'cash rich' with £157m in the bank, as detailed in the report. Further borrowing would increase this cash but if returns were less than 1% this would cost the local authority more money, no matter how low the interest rate. Further borrowing would only be considered for significant capital expenditure which could not be accommodated within the cash balances.

**112.6 RESOLVED:**

To accept the position as set out in the report.

**113 Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2020/21**

113.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided members with an update of work undertaken by Internal Audit in the four and a half months since the beginning of the financial year and the start of Shropshire Council's approved audit plan implementation.

113.2 The Head of Audit advised Members that 35% of the revised Plan had been completed however, due to the impact of Covid there had been a significant adjustment to planned audit activity, however, the team were on target to achieve 90% completion by year end. The Head of Audit drew attention to the proposed significant reduction of 643 days and the slight reduction of resources overall from 2,237 days to 2,157. She confirmed that these changes had been discussed with and agreed by the Director of Finance, Governance and Assurance (Section 151 Officer).

113.3 The Head of Audit drew attention to paragraph 7.3 of the report which detailed the adjustments which had been made to the original plan. Paragraphs 7.4 and 7.5 gave a more detailed example of the Audit Team's response in supporting the Council in administering the Governments Covid-19 Business Support Grants. The Head of Audit reported that three fraudulent claims were identified however full recovery had been made and these cases reported to the Police and the Government Task Force.

113.4 The Head of Audit drew attention to the assurance levels and reported that three good, four reasonable, five limited and five unsatisfactory assurance opinions had been issued and that the 17 final reports contained 313 recommendations, four of which were fundamental. The good and reasonable assurances accounted for 42% of the opinions delivered which represented a significant decrease in the higher level assurances for this period, compared to the previous year (64%). This was offset by a corresponding increase in limited and unsatisfactory assurances (58% compared to 36% the previous year).

113.5 In relation to the four fundamental recommendations set out in paragraph 7.17 of the report, a brief discussion ensued in relation to whether, for fundamental problems within a department identified by the Head of Audit should they be brought consistently before Committee or should the Chairman in consultation with the Head of Audit decide whether to invite the relevant Service Manager and Portfolio Holder to a future meeting. For example, it was proposed that the Service Manager and Portfolio Holder with responsibility for the Pensions Payroll Interface be requested to attend the first meeting of the Committee in the new year. The Head of Audit explained the process undertaken for fundamental recommendations and she suggested that the Committee could be updated by email prior to the meeting once the date for implementation had passed.

#### 113.6 **RESOLVED**

- a) That performance to date against the 2020/21 Audit Plan set out in this report be noted.
- b) That the adjustments required to the 2020/21 plan to take account of changing priorities set out in **Appendix B**, be approved.
- c) That for those fundamental recommendations where the date of implementation has expired, the Head of Audit will email the Manager requesting written assurance of where they were at with regards to implementation for Members to then assess whether they were satisfied with progress and to consider any further action.
- d) That an update on the Pensions Payroll Interface be provided to the first meeting of the Audit Committee in the new year.

#### 114 **Third line of assurance: External Audit: Audit progress report and sector update**

114.1 The Engagement Lead wished to update the Committee in relation to progress of the 2019/20 audit, the changes to the value for money approach for the 2020/21 audit and the Redmond Review which was published the previous week.

114.2 The Audit Manager reported on progress since 31 July 2020. She explained that it had been unclear at the start of the audit progress the impact remote working would have on audit delivery, but, with the benefit of hindsight, she reported that remote working had extended the audit process as it was taking longer to verify data and to clarify any queries. It was taking longer to get responses either via email or by arranging meeting times to go through queries in areas such as the physical verification of assets etc.

114.3 In respect of progress, the Audit Manager informed the Committee that the last block of work had been completed on 14 August when the audit team had met with the finance team and discussed a way forward to complete outstanding procedures. A timescale has been agreed with finance to ensure all outstanding information requests could be provided at a time where external audit could allocate resources to the audit but also would fit with the responsibilities of finance. The Audit Manager was pleased to report that the finance team had responded to the

information requests in order to complete the audit and that three members of the External Audit team would be working through this information in the week commencing 28 September. She confirmed that the plan remained to issue the opinion following the Audit Committee meeting on the 29 October 2020.

- 114.4 In response to a query, the Engagement Lead confirmed that Shropshire Council were above the median line in terms of progress with the 2019/20 audit and was in a good place compared to other local authorities.
- 114.5 Turning to the changes to the Value for Money approach. The Engagement Lead explained that currently External Audit identified significant value for money risks, they look at those risks and issue a Value for Money Conclusion and that Value for Money Conclusion could be an unqualified conclusion, it could be qualified and there were two sub divisions of that, 'except for' which meant basically everything was alright apart from this issue or 'adverse' which was a fundamental governance issue which permeated widely through the organisation. However, the Engagement Lead informed the Committee that all that was changing from 1 April 2020 (so for audits from 2021 onwards) the Code of Audit Practice which was issued through the National Audit Office had changed the Value for Money approach. External Audit would no longer issue a Value for Money Conclusion in future, from then on they would be required to take a different, more intense approach.
- 114.6 The Engagement Lead went on to explain that the Value for Money process would focus on three key areas, financial sustainability, governance and improving economy, efficiency and effectiveness. They would have to look at those areas in quite some depth and he gave some examples. He explained that the thinking behind these changes were about promoting timely reporting on the big issues affecting the Council and the Auditor providing more accessible and meaningful reporting. External Audit would have more responsibility to make very clear recommendations for improvement and to ensure the Council was implementing those recommendations.
- 114.7 The Engagement Lead confirmed that the Annual Audit letter would no longer be issued after this year. The Audit Letter was essentially a cut down of the Audit Findings Report which this Committee sees in any case. The Auditors Annual Report that External Audit will be required to produce will be something different and will comment on the work that they have carried out in terms of value for money, it will clearly identify any areas of weakness and identify and summarise their recommendations. External Audit will be required to publish this by 30 September, but ideally when they issue the audit opinion. In summary, it will require more work from External Audit but it will also require a richer skills mix in terms of delivery of that work so all that adds up to additional costs which would be discussed with the Director of Finance, Governance and Assurance (Section 151 Officer) as it will be a significant fee variation.
- 114.8 In response to a query, the Engagement Lead confirmed that there were no changes to the Head of Audit's responsibilities and there would not be fundamental changes to the way External Audit interface with the Head of Audit in as much as we already clearly communicate with each other, but that the Head of Audit would see a more focussed interest and review of those larger audits that she carries out where significant weaknesses were identified to understand why those weaknesses occurred in the first place and whether the actions that are being agreed are both

appropriate and effective. The Head of Audit reassured Members that she had seen the consultation documents and were working on the types of evidence that would be required by External Audit and conversations with External Audit around this were ongoing.

114.9 In response to a query in relation to what was meant by a 'significant' increase in audit fees, the Engagement Lead explained the background to these changes but he could not currently quantify the figure for the audit fee as it was the subject of discussions and a clear costing needed to be undertaken once more was known about the extent of the work to be done however he did confirm that it would not be a minor figure.

114.10 The Engagement Lead updated the Committee in relation to the Redmond Review which had been published the previous week (8 September 2020). The review looked at Local Government Audit and Financial reporting. The purpose of the review was to assess the effectiveness of audit in local authorities and looked at the transparency of financial reporting. Some very interesting recommendations had been made along with some very pertinent and fundamental findings. His basic conclusion was that the current system for local authority auditing and financial reporting was not working and the arrangements that were envisaged in the 2014 Local Audit and Accountability Act had not materialised. There was concern about a lack of coherence in the system, the local audit market is extremely fragile as there was a dearth of the skills required to deliver focused public audit and the fee structure as it currently was did not support the development of the public audit profession. There was an urgent need for action to be taken to address these problems. The Engagement Lead touched on the recommendations from the report and confirmed that a briefing paper would be provided for the next meeting with more detail.

114.11 **RESOLVED:**

That the contents of the verbal update be noted.

## 115 **Date and Time of Next Meeting**

115.1 Members noted that the next meeting of the Audit Committee would be held on the 29 October 2020 at 1:30pm.

## 116 **Exclusion of Press and Public**

116.1 **RESOLVED:**

That in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following items.

## 117 **Exempt Minutes**

117.1 **RESOLVED:**

That the exempt minutes of the meeting of the Audit Committee held on 31 July 2020 be approved as a correct record.

**118 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7)**

118.1 The Committee received the exempt report of the Principal Auditor (copy attached to the exempt signed Minutes) which provided a brief update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment, together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.

**118.2 RESOLVED**

That the contents of the report be noted.

Signed ..... (Chairman)

Date: .....